THE MISES REVIEW

VOLUME 1, NUMBER 1 ■ SPRING 1995

The Bankers' Cartel

THE CASE AGAINST THE FED
Murray N. Rothbard
Ludwig von Mises Institute, 1994, 158 pp.

Murray Rothbard begins this outstanding book by calling attention to a paradox. The Federal Reserve System enjoys virtual immunity from Congressional investigation. The few who propose to subject the Fed to even minimal scrutiny, such as Henry Gonzales of Texas, at once find a consensus arrayed against them. Their reforms threaten the stability of the market since, it is alleged, only the Fed's independence blocks the onset of uncontrollable inflation.

Here lies the paradox. Inflation results from the infusion of new money into the economy, and it is the Fed that is responsible for its creation. "The culprit solely responsible for inflation, the Federal Reserve, is continually engaged in raising a hue-and-cry about 'inflation' for which virtually *everyone else* in society seems to be responsible" (p. 11). How did this odd situation come about?

A QUARTERLY REVIEW OF BOOKS, BY DAVID GORDON

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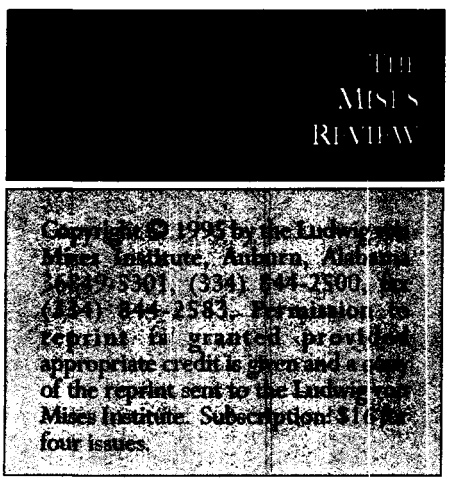
As one would expect from a topflight economist, Rothbard responds by tracing the problem to its roots. He briefly and clearly explains how money originated in a barter economy. Some commodities are much easier to market than others, and "[o]nce any particular commodity starts to be used as a medium, this very process has a spiraling or snowballing effect" (p. 13). Soon one or two commodities emerge into general use as a medium of exchange. This, precisely, is money. Gold and silver have almost always been the commodities that win the competition for marketability. "Accordingly, every modern currency unit originated as a *unit of weight of gold or silver*" (p. 17).

Why has Rothbard gone to such pains to describe a historical process that seems very remote from the Fed? Beginning with a simple case, he can elucidate the basic mechanism that underlies the Fed's operation. Explaining a complex event by starting with a simple example and gradually complicating it is a basic procedure of modern science. Galileo termed this the "resoluto-compositive" method and Descartes described it at length. Once one grasps how money has emerged, the key to understanding the mysteries of the Fed lies at hand.

We already can answer the following question: what is the optimum quantity of money? If one has understood the explanation of money's genesis, the answer is apparent. An increase in the supply of money does not increase real wealth, since money is used only in exchange. (The exception owing to non-monetary uses of gold and silver can for our purposes be ignored.) "Any quantity of money in society is 'optimal'" (p. 20). And, to add one complication, the answer remains the same when paper money has been introduced.

A problem now arises for the analysis so far presented. If an increase in the supply of money does not increase real wealth, why have governments continually resorted to inflation? Rothbard's



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response involves another fundamental insight of Austrian economics. Inflation does not affect everyone equally; quite the contrary, those who first obtain new money gain a great advantage, since they can purchase goods and services before most people become aware that the purchasing power of money has fallen. Inflation is thus a form of counterfeiting (pp. 27–29).

Inflation is a form of counterfeiting. But it is not the only form; another type of counterfeiting arose out of deposit banking.

But it is not the only form; another type of counterfeiting arose out of deposit banking. Because of the inconvenience of carrying gold and silver, people often deposited the metals in banks, obtaining in return a receipt. These receipts, since they are promises to pay gold or silver, soon began to circulate as money substitutes.

But a temptation presented itself to the bankers. The receipts normally did not specify particular gold or silver coins to be returned to the depositor; they were rather entitlements to specified amounts of the money commodity. (Rothbard notes that the nineteenth-century economist W. S. Jevons warned against these "general deposit warrants" [p. 37].)

Since they need only return the amount of money specified in the receipt, bankers might give out more receipts than they had gold or silver on hand, trusting that not all depositors would demand redemption at the same time. For those willing to assume this risk, the prospect of vast profits called appealingly.

But is not this practice a blatant instance of fraud? So it would appear, and so Rothbard firmly avers that it is. Unfortunately, several nineteenth-century British legal decisions held otherwise, and these verdicts were adopted by the American courts as well. Rothbard describes the legal situation with the sure hand of a master historian (pp. 42–44).

Our banker-counterfeiter, one might assume, can now proceed happily on his way to illicit fortune. But an obstacle confronts him; should he issue more receipts than he can redeem, the clients of other banks may ruin

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him through demands for payment that he cannot meet. The solution is obvious; by unifying the banks in a centralized system, this check to fraudulent wealth creation would be ended. Hence the movement for a central banking system, whose history in Britain and the United States Rothbard deftly summarizes.

The Federal Reserve System, as Rothbard makes clear, was the culmination of efforts to centralize banking that continued throughout the nineteenth century. "By the 1890s, the leading Wall Street bankers were becoming disgruntled with their own creation, the National Banking System. . . . While the banking system was partially centralized under their leadership, it was not centralized enough" (p. 79).

As he describes the movement to cartelize banking, Rothbard introduces a dominant theme in his interpretation of twentieth-century American history: the struggle of competing groups of bankers for power. "From the 1890s until World War II, much of American political history . . . can be interpreted not so much as 'Democrat' versus 'Republican' but as the interaction or conflict between the Morgans and their allies on the one hand, and the Rockefeller–Harriman–Kuhn, Loeb alliance on the other" (p. 92).

In the agitation to establish the Fed, the House of Morgan played the dominant role. Rothbard stresses the importance of the conference held at Jekyll Island, Georgia, in November, 1910, under Morgan control. The section of the book (pp. 79–118) that deals with the origin of the Fed shows Rothbard's incredibly detailed historical knowledge. Though he was too modest to do so, he could have echoed the boast of Fustel de Coulanges: "It is not I who speak, but history who speaks through me."

Rothbard brings the historical section of the book to a close with a discussion of the Fed's early years, in which the Governor of the New York Fed, Benjamin Strong, guaranteed Morgan control (pp. 124–29). Only with the coming of the New Deal were the Morgan interests relegated to a lesser role, as the Rockefellers assumed leadership of the Eastern Establishment. Rothbard draws attention to the research of Thomas Ferguson, who has interpreted the New Deal as an anti-Morgan coup (p. 131, n. 40).

Marx held: "Philosophers have only interpreted the world; the point however is to change it."

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For once, Rothbard agrees with his ideological antipodes. The present work is not only an academic study but a plan for action. The plan in question is a radical one. If Rothbard is correct, the entire basis of modern deposit banking, the fractional reserve system, is a type of counterfeiting that must be abolished. Under present arrangements, "the Fed has the well-nigh absolute power to determine the money supply if it so wishes" (p. 144). In response, the Federal Reserve System must be liquidated and the gold standard restored "at one stroke" (p. 146).

Again and again, the reader will be struck by the way in which Rothbard's grasp of fundamental economic principles enables him to overturn conventional thinking. A brilliant example of this is his unmasking of the fallacy involved in deposit insurance (pp. 134–37). Wittgenstein says in the *Tractatus*, "Whatever can be said, can be said clearly," but few have been able to live up to his exacting dictum. Murray Rothbard's writing always displays the clarity of a first-rate mind. If you wish to see this mind in action, and learn from someone in total control of the literature of American economic history, secure *The Case Against the Fed*. ❖

Is It Rhetoric, or Is It Nonsense?

KNOWLEDGE AND PERSUASION IN ECONOMICS
Donald N. McCloskey
Cambridge University Press, 1994, xviii + 445 pp.

As a glance at McCloskey's enormous bibliography suffices to reveal, our author appears to have read everything. And he isn't faking. McCloskey can refer learnedly to Wallace Stevens's poetry, James Gibson's psychology of perception, the Gettier problem, the strong program in the philosophy of science, and Saussure's linguistics, all this aside from his mastery of the literature of most branches of economics. Is there anything McCloskey does not know?

And yet the book leaves me with an uneasy feeling, preventing me from giving it a standard review. I take the most important part of a review to be a summary of a book's main arguments. Here precisely my difficulty arises. McCloskey obviously thinks rhetoric of vital significance and wishes economists to study it

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closely. Yet beyond this he appears singularly elusive and I cannot attribute to him any further substantive theses at all. He brings to mind the literary criticism of Sir Arthur Quiller-Couch and Lascelles Abercrombie. Like them, he writes pleasantly and knows a great deal; but after reading them, one is puzzled: what, if anything, have they said?

Perhaps my failure to understand McCloskey stems from my own deficiencies: I learn from him that I have "difficulty understanding books outside [my] . . . circle" (p. 314).[1] Well, I certainly had great difficulty understanding him. No doubt uncharitably, however, I am inclined to think my incompetence an insufficient explanation. Much of McCloskey's elusiveness stems from his constant efforts to make philosophical points while not having the least idea what he is talking about. He has a tin ear for philosophical argument, and his book is a veritable handbook of fallacies.

As Macaulay's schoolboy would know, McCloskey is a leading opponent of positivism, and his interest in methodology developed in part from arguments with some of his rigidly "scientific" colleagues at the University of Chicago. What sort of points did he make against them? He tells us that he challenged George Stigler, who supported "behaviorist theories of voting, in which people are said to vote according to their pocketbooks" (p. 14). Against him, McCloskey raised the point that voting itself appears irrational, since a single voter has almost no chance of affecting the outcome. "The voter therefore appeared to have shown by entering the voting booth that he was nuts (by the economistic definition of nuttiness) and it would be strange if he voted according to

[1] McCloskey gives as an instance of my misunderstanding (in my review of his earlier book, *If You're So Smart*, in the *Review of Austrian Economics*, vol. 5, no. 2, 1991) that I think that he accepts the positivist criterion of meaning. But what I suggested was that McCloskey thought that positivism was the only "literalist" alternative to his advocacy of metaphor. In doing so, as it then seemed to me, he remained locked in positivist categories. If McCloskey took me to be claiming that he himself accepted positivist views, I must have expressed myself very badly. Similarly, in the remark about metaphor which he is kind enough to quote (p. 42), I intended to represent his views, not my own. I ought to have indicated clearly that I was referring to what I thought lay behind his anti-positivism. I have now learned my lesson and will not again attempt to attribute a coherent position to him.

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his pocketbook with strict rationality after he closed the curtain" (p. 14). In reply, Stigler was "abusively positivistic," saying that only the observable implications of the theory mattered. Here, for once, the abusive positivist was perfectly correct. Unless the behavioral theorists contend that people vote their pocketbooks because it is rational to do so, McCloskey's invocation of the irrationality of voting is not to the point. (It's irrelevant anyway, but never mind.)

McCloskey utterly fails to express himself in a connected way.

McCloskey also went astray in an argument with another Chicago positivist, Gary Becker. Against Becker, who claimed that one execution appears to deter seven murders, McCloskey remarked that "an execution was not the same as murder. . . . Execution . . . is an elevation of the State to life-and-death power, whereas a murder is an individual's act. The two are not morally comparable" (p. 15). Assuming that Becker was arguing in defense of the death penalty, his point was presumably that the penalty's deterrent effect gives reason to support it. How does this argument depend on the assumption that murder and execution are the same? Imprisonment is also not "the same as" murder. So what? If McCloskey means that deterrence does not settle the death penalty issue, he has a much better argument; but he utterly fails to express himself in a connected way.

McCloskey rightly criticizes what he calls "the chocolate ice cream theory, namely, that opinions about morality are mere preferences, like an uncriticizable preference for chocolate ice cream" (p. 96). But he deploys a bad argument against it. Emotivism, the view that evaluative judgments are nothing but expressions of emotion, "is of course self-contradictory; the sneer at evaluation applies to the evaluation of evaluation" (p. 97). But of course the statements that comprise the emotivist theory are not themselves evaluations. McCloskey has not grasped the elementary distinction between an evaluative statement and a statement about evaluation.

Although McCloskey has here attempted an argument from

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self-contradiction, he normally adopts a quite critical attitude to what he calls "the Philosopher's Friend, the rhetorical device of catching someone being committed to X at the very moment of arguing against X" (p. 200). He notes that philosophers often use this type of argument against relativism, but he is not impressed. "Even the admirable Hilary Putnam relies on it. 'What relativist really thinks,' he asks indignantly 'that relativism is only *true-for-my subculture?*' . . . the answer, Professor Putnam, is all of them, and consistently" (p. 200).

Whatever McCloskey is doing, it isn't philosophy.

McCloskey fails to see the point behind Putnam's question; a relativist who confines himself to saying that his group accepted relativism poses no objection at all to absolute truth. "Some people believe the earth is flat" leaves entirely untouched the issue of the earth's shape. And why must anti-relativists "confront, however, another *tu quoque*; that you, oh philosopher, are in turn arguing rhetorically. Gotcha yourself" (p. 200). Why should anyone be reluctant to acknowledge that he is arguing rhetorically, when McCloskey has characterized rhetoric so that it embraces all forms of communication?

For some reason unknown to me, McCloskey returns again and again to the theory of knowledge. He is interested in Gettier cases, a central topic of contemporary epistemology. In a Gettier case, one has a justified belief in a true proposition but doesn't know the proposition. McCloskey calls Gettier cases "an unresolved technical problem with the problem of justifying true belief" (p. 190), which is simply wrong. The cases appear to show, rather, that justified true belief is insufficient for knowledge, as McCloskey himself recognizes later in his paragraph. Our rhetorician proceeds to offer an "economic version" of a Gettier example but muffs it, since his case involves an *unjustified* true belief.

McCloskey has yet another argument to direct against critics of relativism. Relying on the French sociologist of science Bruno Latour, McCloskey tells us that "there does not exist a safe metalinguistic level." Unfortunately, he tells us neither what a "safe metalinguistic level" is, why he thinks anti-relativist arguments depend

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on one, nor how he knows one doesn't exist.

After McCloskey devotes so much fuss and feathers to denying his own relativism, the reader is startled to find this: "Rules of argument, even something as fundamental as the law of excluded middle (which is rationally set aside in some forms of logic and mathematics) are instituted by rhetorical agreement. That a statement must be either true or false and not both or neither is something we accept because it is agreed to be useful in certain classes of disputes between people. . . . It is not written in the stars" (p. 241).

McCloskey is on perfectly solid ground in asserting that some forms of logic and mathematics set aside the law of excluded middle; intuitionist logic is a leading example. But how does it follow that whether we accept the law is conventional? And why does he jumble together the law of excluded middle with the law of non-contradiction? Is the adoption of the law of non-contradiction supposed to be conventional, too? (Perhaps McCloskey will reply by citing the work of Routley and Priest on para-inconsistent logical systems.) Whatever McCloskey is doing, it isn't philosophy. ❖

Up From Buckleyism

CATHOLIC INTELLECTUALS AND CONSERVATIVE POLITICS IN AMERICA, 1950–1985
Patrick Allitt
Cornell University Press, 1993,
xiii + 315 pp.

Patrick Allitt's excellent book may be approached at two levels. On the one hand, Allitt has produced an old-fashioned narrative history, and his book is none the worse for that. He offers a detailed account of most of the leading American Catholic conservatives of the past forty years, and his extensive research has uncovered much valuable material about them. On the other hand, he has a thesis to advance.

I propose to concentrate on the former of these levels, "where the bodies are buried," if you will. I do so not because his central argument is false or uninteresting—quite the contrary. Allitt's thesis is that during the 1950s American Catholic conservatives generally held a cohesive position, based on natural law. In politics, Catholic rightists favored a

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strongly anti-Communist foreign policy and defended capitalism, although not in the pure form professed by libertarians. This group succeeded during the 1950s and early 1960s in securing for itself a distinct place in American politics.

But then disaster struck. The Second Vatican Council, with its attendant upheavals, fragmented American Catholicism. Accordingly, in the 1960s and 1970s the united front among Catholic conservatives broke apart. Allitt's contention strikes me as well argued and important, but at one point he seems to me mistaken. He criticizes natural law ethics on the ground that "natural law principles can in fact be made to yield multiple solutions to each problem, depending on which of the many available principles is granted salience for the particular issue under scrutiny" (p. 8).

But all this says is that there are competing arguments. This is a situation true in innumerable areas, historical interpretation not least among them. Allitt probably would not wish to argue that because; others differ with his views of Catholic intellectuals, all he says is thrown into doubt. Likewise various natural law "solutions" do not invalidate natural law. Allitt might reply that not only do interpretations of natural law differ, there is also no means of rationally deciding among them. But to show that requires much more argument than Allitt attempts.

If Buckley contributed nothing of intellectual substance to Catholic conservatism, he effectively popularized its principal tenets.

But Allitt's brief surrender to relativism is at worst a minor blemish that does not much affect his discussion, which offers illuminating accounts of central figures. No doubt the most famous Catholic conservative during Allitt's period was William F. Buckley, Jr.; after reading Allitt, one can only marvel at how little of substance underlay his reputation. The two main planks of Buckley's political outlook, his opposition to Communism and support of capitalism, were well in place on the Catholic right long before Buckley arrived on the scene.

Allitt places particular emphasis on the historian Ross J.S. Hoffman and the political scientist Francis

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Graham Wilson, both converts to Catholicism, who in the 1940s and 1950s articulated the vision that Buckley later propagandized. "Ross Hoffman had by 1950 expressed many of the convictions that were to guide the Catholic new conservatives in the coming decades" (p. 57). Hoffman and Wilson maintained that behind Communism lay a spirit of revolutionary utopianism, sharply at variance with the Christian doctrine of original sin. Politics guided by prudence, in the spirit of Edmund Burke, was the order of the day, and an economy based on private property was an indispensable adjunct in the struggle. (I think, however, that Allitt overstates Wilson's commitment to capitalism in *The Case for Conservatism* [pp. 58–59].)

If Buckley contributed nothing of intellectual substance to Catholic conservatism, he effectively popularized its principal tenets. In his defense of the Right, Buckley sometimes adopted positions with which he would today hardly be associated. He published several articles in *National Review* defending segregation, and in 1959, "Buckley himself opined that the disfranchisement of blacks in the South could be justified on grounds of their lack of education and civilization" (p. 114).

Allitt's discussion of Buckley helps clear up a mystery. In Buckley's venomous obituary notice of Murray Rothbard, many readers will have found puzzling Buckley's stress on Khrushchev's visit to the United States in 1959. Why did Buckley dredge up this minor event of thirty-five years ago? As Allitt makes clear, the struggle against Khrushchev's visit had the status of a crusade for Buckley and his *National Review* associates: to them Western Civilization was at stake (pp. 67–70). That Buckley became at the time overwrought is perhaps understandable; what is harder to fathom is that this "venture in triviality" remains for him a major incident in his life so many years later. Allitt also points out that Buckley's opposition to Rothbard was of long standing: Buckley never supported free-market capitalism in Rothbard's resolute fashion.

Allitt devotes much of his book to writers who, if less well known than Buckley, have much more intrinsic significance. Among these is Buckley's brother-in-law, L. Brent Bozell. Bozell felt himself to be in Buckley's shadow during his years as a *National Review* editor (p. 142), but he was in fact the more substantial figure. His *The Warren Revolution* holds up

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after nearly thirty years as a major, though neglected, contribution to constitutional scholarship.

Allitt presents Bozell's book as if it were simply a protest against the usurpations of the Warren Court. Quite the contrary, much of the book is a full-scale historical investigation of judicial review, with radically revisionist findings. (Unfortunately, he published only one volume of what was intended as a longer study.) Allitt gives a valuable account of Bozell's founding of *Triumph*, his split with Buckley, and his journal's collapse.

Buckley never supported free-market capitalism in Rothbard's resolute fashion.

Allitt has astutely seen that Frederick Wilhelmsen, Bozell's collaborator at *Triumph*, had "a brilliantly acute intellect and [an] internally consistent vision" (p. 145). Wilhelmsen, like Bozell, reflected the breakup in the solid front of 1950s Catholicism. Unlike Buckley, who moved ever closer to the American Establishment, Wilhelmsen doubted the ultimate stability of the secular American state. Instead, he looked to Spain, becoming a supporter of the Carlists, a dissident monarchist group.

Allitt rightly emphasizes the importance for Wilhelmsen of his work in philosophy; but when he says that Wilhelmsen denied "the legitimacy of the idea of objective knowledge" (p. 147), he conveys a misleading impression. Wilhelmsen did indeed deny that we can have knowledge without personal involvement; and Allitt, taken strictly, says no more than this. But I fear that his wording may convey to the unwary reader the suggestion that Wilhelmsen doubted that human beings can obtain knowledge of the world as it really is. This is the very reverse of the truth: Wilhelmsen ardently defended realism and wrote a laudatory preface to the English translation of Gilson's classic attack on idealist epistemology.

Allitt's sure touch for those outside the mainstream emerges clearly in his chapter on those two remarkable Hungarians, John Lukacs and Thomas Molnar. Molnar especially seems to me a writer of great intellectual power. He found most American intellectuals far inferior to their European counterparts. But the latter

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also were not all they should be; and in *The Decline of the Intellectual* (1961), he traced the decadence of the Western mind to the overthrow of the scholastic synthesis by the nominalists. As Allitt points out (p. 226, n. 84), Richard Weaver took the same line [in *Ideas Have Consequences*, 1945].

Molnar rejected received political wisdom in similarly radical fashion; he admired European counter-revolutionaries such as Franco and Salazar and spurned the American political system. Allitt might have pointed out, however, that *Decline of the Intellectual* includes a highly critical chapter on reactionary intellectuals. Allitt I suspect finds the historian John Lukacs more congenial; he presents a brilliant description of Lukacs's historical writing (pp. 211ff).

Although neither Garry Wills nor Michael Novak compares in intellectual power with Wilhelmsen, Lukacs, and Molnar, the former duo have received much more public attention; and in a very useful chapter, Allitt compares and contrasts them. Most commentators on Wills see him as breaking sharply with his one-time conservatism. The former critic of Martin Luther King became the defender not only of King but of the Berrigan brothers as well.

But Allitt, with the insight of a good intellectual historian, sees continuity between early and late Wills. In all phases of his intellectual career, Wills has opposed individualism. In *Nixon Agonistes*, for example, "Wills's main target was the idea of 'markets,' central to liberalism since the days of Adam Smith and Jeremy Bentham" (p. 267). Wills instead advocated a "convenient state" whose governing virtue was not justice but prudence.

I think that Allitt, clearly an admirer of Wills, overrates the plausibility of his position. Does Wills's convenient state really comport well with the "prophetic figures," such as King and Arthur Waskow, whom he admires (p. 281)? And Allitt's praise for the "vast analytical range and power" of *Inventing America* seems hard to maintain in the face of Ronald Hamowy's devastating assessment in the *William and Mary Quarterly* (October 1979).

Although Michael Novak has also made a big splash, he comes off in Allitt's portrayal as very much inferior to Wills. After abandoning his study for the priesthood, he enrolled in the Harvard Philosophy Department. Unfortunately, he twice failed his PhD general exams, a fact that did not prevent his securing

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prestigious teaching positions at Stanford and elsewhere (p. 255). Novak's prolific output, in both theology and politics, was often marred by wildly overstated and implausible claims. In his early theological works, "he criticized traditional Catholic exclusivist claims with the abrupt assertion that in the 'secular city' of the 1960s the differences between the believer and the unbeliever, let alone Protestant and Catholic, were negligible" (p. 256).

In his 1978 *Guns of Lattimer*, Novak argued that a "sacrament of blood" had been necessary to produce reconciliation between immigrant Pennsylvania coal miners and their WASP neighbors. Novak now champions "democratic capitalism," a peculiar amalgam that he has endeavored unsuccessfully to explain in numerous books. Though Allitt never criticizes Novak directly, he brings out the slapdash quality of Novak's thought to devastating effect. I do think, though, that he should have given Novak credit for an interesting early piece on substance in Aristotle.

I wish that Allitt had said more about Erik von Kuehnelt-Leddihn, Willmoore Kendall, and Joseph Sobran; but on the whole he has written a comprehensive, balanced, and satisfying book. ❖

The Conscience of a Canadian

DEAD RIGHT
David Frum
Basic Books, 1994, x + 230 pp.

David Frum has identified a central problem affecting much of the American Right. But because he himself supports the Leviathan State to a greater extent than some of those he so readily condemns, he can offer nothing in the way of a solution. For the one group that does offer a way out, Frum, a Canadian commentator for National Public Radio, has nothing but contempt and calumny.

The difficulty with the Right which Frum has identified is this: during the Reagan administration, conservatives reneged on their commitment to scaling-down, if not eliminating altogether, the welfare state. "About morality and nationality, conservatives have a lot to say. But their fervor for eliminating the progressive income tax and the redistribution of wealth via Washington has cooled when it has not disappeared altogether" (p. 2).

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Programs such as Social Security and Medicare have behind them powerful constituencies. Much better, then, for the politician who wishes to keep office to shift to other issues. For a while, the supply-side economics of Arthur Laffer, Jude Wanniski, and Paul Craig Roberts offered an escape. By reducing federal tax rates, much of the crushing burden imposed by the government would be lifted; but miraculously, revenues would not fall, thus averting the distasteful assault on the welfare state.

During the Reagan administration conservatives reneged on their commitment to scaling-down, if not eliminating altogether, the welfare state.

The plan, which seemed to promise something-for-nothing, had behind it a simple rationale—people able to keep a greater share of their income will be more productive and thus generate increased tax revenue. Frum himself views the supply-side remedy with favor: "If federal spending had risen no faster than inflation between 1979 and 1984, the United States could have spent every dollar it did on defense and enjoyed all the Reagan tax cuts and would have still run a federal budget surplus big enough to pay either for the repeal of the corporate income tax or a one-third cut in everyone's Social Security payroll taxes" (p. 32; see also, pp. 208–09, n. 1 for supporting data).

But salvation did not come from this corner. Federal spending continued to rise, and the much-vaunted Reagan revolution drastically increased the budget deficit. No major conservative group, Frum avers, was willing to struggle for the classic rightist program of limited government. (As we shall soon see, it is just here that Frum's analysis starts to misfire.) Absent their traditional program, what were conservatives to do? Frum distinguishes three principal factions, each of which he finds unsatisfactory; hence the "dead right" of his title.

The first two groups may be dismissed quickly from consideration. The optimists, epitomized by Jack Kemp and Newt Gingrich, maintain that the application of a few supposedly market notions, such as enterprise zones and vouchers, will cure the major

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social ills of America. Frum treats the optimists' tinkering with commendable skepticism; their programs, which rely on increased government spending, are in point-of-fact inimical to the free market.

Frum handles the issue of vouchers particularly well: "But with school choice . . . the optimistic conservatives reached the dead end in their ideology. In the modern regulatory state, there is no escape from disagreement over right and wrong by retreating from the public to the private sphere—the exits are all cut off" (p. 93). Many others among the paleo alliance made this point some time ago, but Frum does not acknowledge them. Nevertheless, he is perfectly on target: schools accepting vouchers would be fully subject to federal regulation.

Frum advances some effective criticism of his second faction, the moralists. The members of this group do not place primary stress on the free market. Instead, they see the loss of virtuous habits of behavior as the main cause of contemporary social problems. They propose a very activist federal government, with the prime mission of moral education of the populace.

Jack Kemp and Newt Gingrich maintain that the application of a few supposedly market notions, such as enterprise zones and vouchers, will cure the major social ills of America.

As Frum notes, the plans for educational reform of Chester Finn, a leading moralist, "would grant the central political authorities unprecedented control over the character formation of the American public." Such measures fly in the face of anything remotely resembling a right-wing policy; besides, the recent recipients of office in the federal government hardly seem fitted to be moral exemplars.

So far, Frum's argument has seemed convincing, but it is just at this point that doubt arises. When Tom Fleming, the editor of *Chronicles* called Finn's plan "total education for the total state," one would expect Frum's enthusiastic agreement. Instead, he dismisses the remark as "demented" (p. 115).

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How can he fail to see that Fleming's comment is on precisely the same lines as his own analysis of Finn's scheme?

Frum's comment exposes a serious blind-spot in his view of the contemporary Right. A peculiar animus against the paleoconservatives disfigures his treatment of them. His main charge against them is that they too betray the free market and limited government. Sam Francis, for instance, wishes to restrict immigration and looks upon free trade with less than complete favor. Do not their plans require a powerful state? Further, the nationalism of the paleos is but a variant of the multiculturalism against which they often fulminate. Like their opponents, they take race as primary. "The nationalists may take their descent, as they say, from the oldest strain of American conservatism. At the same time, however, they are truly multiculturalism's children" (p. 158).

Frum's bitter indictment has little substance. A minimal state is not a borderless state. Adequately patrolled borders are eminently consistent with classical liberalism. To see a "necessary connection between nationalism and statism" (p. 141) strikes one as overdrawn in present-day America, all the more so as Frum himself acknowledges the increasingly heavy costs of welfare programs for immigrants (p. 144). Much of paleoconservative opposition to free trade consists of criticism of measures such as Nafta and Gatt, attempts to centralize government control of trade between signatory countries.

In his attempt to smear the paleos as statists, he ignores a glaringly obvious point. The *Chronicles* group has in recent years been heavily influenced by the free-market beliefs of the Austrian School. Frum ranges far afield in coming up with odd parallels with the paleos, including Leopold Maxse and Charles Maurras, but he does not think worthy of mention that his alleged "statists" were close allies of the foremost American advocates of individual liberty.

Frum has no explicit discussion of Murray Rothbard's views at all. He is merely dismissed for "extreme libertarianism" and vilified for a critical remark about Martin Luther King (p. 148). Do we not have here an odd circumstance? Frum lambastes the entire American Right for abandoning the free market but studiously avoids discussion of a key rightist whose devotion to the free market far surpassed Frum's own. Our author appears

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uninterested in evidence that contravenes his thesis.

Equally questionable is Frum's strange assimilation of the paleos and multiculturalists. He states "Fleming, Francis, Rockwell, Rothbard and their circle believe what Donna Shalala and David Dinkins and Henry Louis Gates believe—that America . . . is—or is coming to be characterized by a 'diversity' that cannot be reduced to a common Americanism of recognizably English origin" (p. 148).

Frum has condemned nearly every major figure on the Right as an advocate of big government.

Taken just as it stands Frum's statement is trivial. Presumably any sane person, not just the few mentioned by Frum, will recognize that America is now ethnically diverse; who would deny it? But the paleos and multiculturalists hardly adopt the same attitude towards this diversity. By similar reasoning, one could "argue" that supporters of capitalism and socialism really hold identical beliefs, since both share an interest in the economy.

Perhaps what Frum has in mind is that the paleos, like their multiculturalist opponents, elevate race to greater importance than he considers acceptable. But it hardly follows that the paleos have taken over their emphasis on race from their opponents. Frum's claim begs the question against them; paleos such as Francis maintain that their concern with ethnic heritage is true to the intentions of the Founding Fathers. And even if the paleos' views did mirror those of the multiculturalists, this would not show them mistaken.

In his zeal to condemn the hated paleos, Frum leaves himself open to attack. He has condemned nearly every major figure on the Right as an advocate of big government. But Frum himself ardently supports a militaristic and warmongering state. Although he recognizes that many neoconservatives engaged in "excessive rhetoric about Third World Democracy" (p. 152), he mocks opposition to the 1990 Gulf War. The unwillingness of paleos to endorse a war that, in the event, achieved nothing at all puts Frum in mind of the "reckless folly of America First" in the years before World War II (p. 154).

Here we have a striking paradox. Frum poses as the great

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champion of the free market and a limited state. Yet he enthusiastically supports World War II, the war that led to an unprecedented expansion of the state. The arguments of the America First movement against intervention receive no consideration; how much easier to condemn its members as lunatics!

Frum shows himself well aware that civil rights laws represent "an enormous expansion of the coercive power of the state."

And Frum's statism is by no means confined to the foreign policy front. Do not civil rights laws require close monitoring of virtually all business transactions and private affairs by a powerful state? Frum shows himself well aware that civil rights laws represent "an enormous expansion of the coercive power of the state" (p. 63), but never does he condemn them. Their intrusiveness, it appears, must be balanced against the perils of "majoritarian morality." The professed anti-statist Frum appears anxious to call in the Thought Police to deal with those insufficiently enamored of Martin Luther King, Jr.

Frum laces his book with a wide array of scholarly allusion, but his comments do not always inspire confidence. He rightly notes that John Stuart Mill wished to protect individuals from both intrusive government and social conformity. But he thinks that to do this poses a dilemma that Mill, among others, found insolvable; "he ended his days a socialist" (p. 162). But Mill did not regard protecting people from both as a dilemma; on the contrary, he thought that the task could be achieved through the principles he advanced in *On Liberty* (1859). These he never abandoned; his cooperative brand of socialism most certainly did *not* mean that Mill thought big government necessary to cope with social tyranny.

Frum, in his bizarre comparison of Pat Buchanan with Charles Maurras, introduces the latter as a "nineteenth-century authoritarian" (p. 151). Maurras was principally a twentieth-century figure; but I suppose it would be too much to expect precision in a book of this sort. ❖

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What Should Anti-Economists Do?

THE MARKET PROCESS:
ESSAYS IN CONTEMPORARY
AUSTRIAN ECONOMICS
Peter Boettke & David Prychitko, eds.
Edward Elgar, 1994, xv + 304 pp.

Tertullian famously asked, "What has Athens to do with Jerusalem?" After reading *The Market Process*, one can but inquire, "What has bad philosophy to do with Austrian economics?" As Don Lavoie makes clear in his informative preface, the "scholars at the Market Process Center" (p. x) of George Mason University came to view themselves as the architects of a radical new research program within Austrian economics.

One of the two main theoretical innovations of the group during the 1980s directly involves philosophy. "A group of graduate students and professors began studying hermeneutics, especially the work of the German philosopher, Hans-Georg Gadamer, and became very excited about the implications of this approach for market process economics" (p. x). (The other innovation, a type of computer programming, is not discussed in the book.) So agog with excitement were our innovators that they have transcended economics altogether and have now formed a new department, the Program on Social and Organizational Learning, in which they can pursue "their radically new way of thinking about society and organizations" (p. xi).

To inform a waiting world of the results of their inquiries, the Center began to issue the journal *Market Process* in 1983; and the present volume collects a number of significant articles from that periodical. So successful and well-received was *Market Process* that the Center suspended publication of it in 1990. "The Market Process Center stopped publishing *Market Process* just when it was arguably at its peak. The decision was made that it was time to turn publication efforts out into the many new scholarly communities which market process scholars had located, both within and outside the economics profession" (p. xii).

Those wishing a bird's-eye view of the revolution can do no better than to begin with "A Political Philosophy for the Market Process," by the presiding genius of the school. In it, Professor

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Lavoie informs us that classical liberalism has hitherto been defended in an improper way. "The older form of classical liberalism relied on a natural-rights approach based on metaphysical arguments concerning such things as the 'essence' of man.

> This position, which essentially takes the rule of law to be imposed by God from outside of human society, leaves no room for democracy, for the participation by the members of society in the setting and revising of rules. It thus belongs naturally to conservatism. The later utilitarian version had its own difficulties, not least of which was the questionableness of its claim to be a value-free way of dealing with value-laden policy issues. Utilitarianism takes the rule of law to be nothing but what the majority of the moment decides it to be, and thus sets no limits to democracy. It belongs naturally to socialism (p. 276).

I have quoted this passage at some length as it demonstrates Professor Lavoie's utter incompetence in political philosophy. If a natural-law position derives rules from the essence of man, how can it at the same time view these laws as imposed by God? Does Lavoie know the difference between a natural-law and a divine-command theory of ethics? Why does a natural-law position require that people play no role in making rules? What if one of the natural laws just is that people do have such a role? And if there are natural laws immune from democratic revision, what is the matter with that?

If a natural-law position derives rules from the essence of man, how can it at the same time view these laws as imposed by God?

Rarely have I had to defend utilitarianism, but Lavoie forces me to it. Utilitarianism is not a value-free way of dealing with policy—it is of course a theory of ethics whose adherents presumably stand committed to the values it promotes. Utilitarians need not favor democracy, let alone unrestricted democracy; the political system a utilitarian supports will depend upon his appraisal of what best promotes happiness. I wonder what Mises and Hazlitt, both utilitarians, would make of Lavoie's claim that their ethical position belongs to socialism.

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Though past political theory does not meet Lavoie's exacting standards, he is far from a pessimist. He has found in the work of Gary Madison, a student of Paul Ricoeur, the way to a proper market-process defense of classical liberalism. As Madison realizes, humans have no access to absolute truth–instead, truth is agreement. "[I]t is the discussion process among subjective minds itself which constitutes the standard, not some absolute, final target of objective truth toward which this process is supposed to be tending" (p. 279).

It seems a fundamental misapprehension that one can simply mouth a philosophical slogan like "tacit knowledge" or "spontaneous order" and expect it to do the work of rigorous argument.

One might at first fear that this leads to nihilism; does it not count as true whatever people choose to think true? But Lavoie, well aware of the difficulty, is quick to offer a remedy. "Truth isn't 'nothing but agreement' because agreement isn't really 'nothing but agreement.' Agreement in this sense refers not just to whatever people actually agree to, but what they can come to a reasonable agreement together about" (p. 279). And if you find that clears matters up, you qualify for a position in the Program on Social and Organizational Learning.

Unfortunately, amateurism in philosophy beguiles not only the presiding genius but some of his acolytes as well. David Prychitko finds the root of socialist evil in René Descartes. "Descartes strove to attain pure reason" (p. 264). Accordingly, he rejected custom and tradition (did he?); all institutions must be constructed afresh, according to rational principles. And this is exactly what socialists believe about the economy. They wish to subject the economy to a comprehensive plan, and here lies their undoing. The knowledge required to run a modern economy is dispersed among entrepreneurs and much of it is "tacit," incapable of being encapsulated into exact rules. Simply by attending to philosophical fundamentals, we have obtained a quick refutation of socialism. Away with such Cartesian nonsense!

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Unfortunately, this will not do at all. A socialist will reply that he also proposes to use the tacit knowledge of economic actors—why need he advance his plan as specifying all knowledge? To refute him, a detailed economic argument is required, along the lines laid down classically by Mises. It seems to me a fundamental misapprehension that one can simply mouth a philosophical slogan, such as "tacit knowledge" or "spontaneous order," and expect it to do the work of rigorous argument.

Donald McCloskey here too appears guilty of philosophizing by slogan.

Donald McCloskey here too appears guilty of philosophizing by slogan. In his "Splenetic Rationalism," McCloskey is anxious to counter Hans Hoppe's claim that he is a relativist who denies a real distinction between truth and falsehood. In making this charge, Hoppe has ignored a basic point, the difference between truth with a small "t" and truth with a capital "T."

"Small 't' truth," says McCloskey, "is what we use every day to get across the street or to detect another subatomic particle. By contrast Big-T truth is a philosopher's construct, justified true belief . . . well, there is such a thing as objective truth, the agreement we all make for purposes of navigating the world and society. . . . The problem is that there doesn't seem to be any way of knowing whether we have hold of Objective Truth, capital-O, capital T. Its presence or absence would seem to be knowable only to God" (p. 192).

Here we have it. Truth with a capital-T is justified true belief; thus, the upshot of McCloskey's perfervid defense of rhetoric is that we have no justified true beliefs, since it is precisely truth with a capital-T to which he denies us access. Or is his position that even if we do have justified true beliefs, we cannot know that we do? Why not? And is his thesis to that effect itself meant as a justified true belief? If so, by his own contention, he cannot know it. Or is it an instance of small-t truth? If so, who agrees with it? Hoppe clearly does not.

To press McCloskey with elementary worries of this sort is

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futile. He has seized upon a phrase that attracts him and has neglected to explicate what he means by it. I doubt that he knows himself; his "definition" of capital-T truth is in fact not a phrase about truth but rather the classic criterion of knowledge, now abandoned by most contemporary philosophers. McCloskey has something in mind as an object of attack, but declines to specify what he means. Instead, he waits for critics such as Hoppe to guess his thesis, and then reproves them for missing the point.

It is not enough for our market process crew to concoct a slapdash theory of knowledge. To attract Austrians to their program, they suggest an unimpeachable Austrian pedigree for their ideas. According to Professors Boettke, Horwitz, and Prychitko, Mises himself stands among their precursors in epistemology! True, they acknowledge, he often sounded distressingly Euclidian, but at times he saw the light.

Mises, they aver, "defends praxeology on pragmatic grounds"; they proceed to cite a passage from *Human Action* that appears to do just that. But, taken in context, the passage does not signify Mises's adoption of a pragmatic stance; rather, he argues, "the champions of mechanicalism" defend science on pragmatic grounds. And it on these same grounds that "the emptiness of the panphysicalist dogma becomes manifest" (Mises, *Human Action*, New Haven: Yale University Press, 1963, pp. 23–24). Mises is thus arguing that his opponents' premise refutes itself, not stating his own position.

The problems of *The Market Process* are by no means confined to articles that address methodology. A particularly unfortunate piece is Steven Horwitz's "Misreading the 'Myth': Rothbard on the Theory and History of Free Banking." As Horwitz notes, Rothbard challenged Larry White's claim "that Scottish banking from 1721 to 1845 was a successful example of an actual free banking system" (p. 166). But he proceeds to impute to Rothbard an incredible syllogism, the purport of which is that if Scotland was "not much of a free banking system," then free banking theory is invalidated (p. 167).

Horwitz asks why the failure of one example refutes the theory and accuses Rothbard of ignoring the distinction between theory and history. But of course Rothbard nowhere adopts the reasoning Horwitz finds "implicit" in

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his review of White. Rather, he confines himself to an evaluation of White's historical claims.

One further example of questionable argument will have to suffice. In "Beyond Equilibrium Economics," Boettke, Horowitz, and Prychitko suggest that equilibrium analysis is highly questionable. But much of their argument against equilibrium consists simply of the repeated declaration that the concept is a "mechanical metaphor" (p. 65). Rather than rigorous argument, they offer slogans. I suppose then that one must at least give them credit for a consistent approach to both philosophy and economics.

Not all the articles in this book are bad. Quite the contrary, several raise issues eminently worth pursuing. But the meritorious pieces (which I shall not single out for mention) are in bad company. Boettke, Horwitz, and Prychitko state about the market process group, "No one is denying objective reality or truth" (p. 71, n. 1). As the Duke of Wellington once said, if you can believe that, you can believe anything. ❖

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Big Money, Small Thinkers

"WHY INTELLECTUAL CONSERVATISM DIED"
Michael Lind
Dissent, Winter, 1995, pp. 42–47

Michael Lind maintains that intellectual conservatism collapsed over the past decade. Before the collapse, the two main varieties of mainstream conservatism "from the founding of *National Review* in 1955 to the disastrous Houston Convention of 1992" were "Buckley-style fusionism" and neoconservatism, the former mainly Catholic and the latter Jewish (p. 43). William Buckley and his allies "effectively wiped out the major rival for the leadership of conservative white Protestant Americans" through a campaign against the John Birch Society (p. 43).

Alas, Protestant fundamentalists did not accept tutelage from those whom Lind deems their intellectual betters. With the onset of the Christian Coalition in 1988, the "institutions and the leaders of the older Catholic and Jewish conservatives suddenly became superfluous" (p. 43). In response, the

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intellectual Right surrendered. Its members have sold out to the fundamentalists, abandoning the path of reason. Instead they act as "image consultants for Protestant fundamentalists" (p. 44). Standards have been abandoned, as intellectuals such as William Bennett and William Kristol become "middlemen between the uncouth fire-and-brimstone Protestant evangelicals and the world of serious journalism, policy, and scholarship" (p. 44).

The uniformity of opinion Lind notices hovers around a right-tinged social democratic outlook.

Lind's analysis contains much of value, but the biased terms in which he encases it need to be pared away. Lind is clearly on target when he notes that the *National Review* crowd and neoconservatives no longer dominate the Right. But why is this a mark of intellectual decline? Lind obviously holds certain views in contempt; only a "pointy-head" would dare to criticize Darwin, for instance.

But the intellectual stature of a group ought not to be rated by whether its opinions meet with Lind's approval. The academic credentials of the paleos easily outweigh those of the neos. Nor is the rightwing movement confined to Protestant fundamentalists. And Pat Robertson hardly seems the central figure Lind makes him out to be.

If one ignores Lind's value-loaded descriptions, a striking point emerges. He has correctly seen that most American conservatives are fed up with the leadership that has been foisted on them. "The complaint of 'paleoconservatives' that their movement was being taken over by opportunistic (and in many cases weird) foreigners was not completely without foundation" (p. 47).

Lind also notes another vital point. "One by one, every leading conservative publication or think-tank over the past decades has come to depend on money from a few foundations—Olin, Smith-Richardson, Bradley, Scaife" (p. 46). Lind errs in thinking that these foundations have promoted a movement *toward* the so-called far right. The uniformity of opinion Lind notices hovers around a right-tinged social democratic outlook, a view far less principled than mainstream conservatism of the 1950s. ❖

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